

October 26, 2007

Congressional Addressees

Subject: *Military Base Realignments and Closures: Transfer of Supply, Storage, and Distribution Functions from Military Services to Defense Logistics Agency*

As a result of the 2005 base realignment and closure (BRAC) round, the military services are required to transfer to the Defense Logistics Agency (DLA) all of their supply, storage, and distribution functions at specified depot maintenance locations that are collocated with a DLA distribution depot.¹ These transfer actions are part of a larger BRAC recommendation, commonly referred to as the Supply, Storage, and Distribution (SS&D) recommendation, that is intended to reduce both the number of supply distribution depots and related excess capacity, while providing the Department of Defense (DOD) with a logistics base that saves money and enhances the effectiveness of logistics support to operational forces. There has been disagreement among the services and DLA about whether certain personnel positions that include functions inherently involving both supply and maintenance operations at the services' industrial depots should transfer to DLA as part of this recommendation. The Air Force, Navy, and Marine Corps reached agreement with DLA about these positions in January, February, and April 2007, respectively. After repeated opposition to the transfer of certain positions, in July 2007 the Army agreed to comply with direction from the Office of the Secretary of Defense (OSD) on the specific functions and positions to transfer. DLA subsequently submitted its draft business plan for implementing the SS&D recommendation to OSD for approval on September 18, 2007.

Because of the broad congressional interest in the implementation of the 2005 BRAC round recommendations, we prepared this report under the Comptroller General's authority to conduct evaluations on his own initiative. Our work was in response to concerns raised by several congressional offices about possible inefficiencies and disruptions in depot maintenance production that could potentially generate higher costs at the department's depot maintenance activities and affect equipment readiness during a critical time for maintenance and support of our nation's warfighters. Our objectives were to determine (1) what efforts have been made to determine which supply-related functions will transfer to DLA, (2) what are the military services' key concerns in implementing the transfer of functions, (3) the extent to which DLA's plans establish a transfer process that minimizes disruptions in

¹In this context, supply, storage, and distribution refers to various actions to provide repair parts to depot maintenance personnel who perform repairs and upgrades on equipment that is needed to maintain readiness and support ongoing military operations.

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depot maintenance, and (4) what are the estimated costs and savings associated with implementing this transfer of functions. This review is one in a series of reviews on the implementation of the closures and realignments in the BRAC 2005 round that we have undertaken under the Comptroller General's authority to conduct evaluations on his own initiative. As part of that work, we are currently reviewing the cost and savings estimates for the larger SS&D recommendation, as well as the progress and challenges in implementing the recommendation.

To address these objectives, we focused on the 13 service industrial sites that are collocated with DLA depots and were included in the BRAC SS&D recommendation. We analyzed implementation planning data and interviewed officials at various levels within DOD, DLA headquarters, the military services' headquarters, and various service industrial depots cited in the SS&D recommendation.² We also spoke with industrial depot union representatives for the employees who would potentially be affected by the transfers in each of the military services. In addition, we reviewed DLA's cost and savings estimates as presented in its September 2007 draft SS&D business plan and supporting documents. We also relied on interviews with DLA and service officials and analyses conducted as part of our ongoing work on implementation of the SS&D recommendation. We reviewed DLA's planning actions regarding the transfer of functions virtually as they were occurring. While we determined that the data presented in DLA's planning documents were sufficiently reliable for the purposes of this report, it should be noted that BRAC business plans are considered "living" documents and the data presented therein represent a point in time as plans are subject to change as implementation proceeds. Moreover, since this report contains data from the draft business plan for the SS&D recommendation, the data used in this report could change if the business plan is revised.

We relied heavily on testimonial evidence as to actions that are planned to occur in the future because little other evidence existed at the time of our review. Specifically, because the implementation planning process is not yet complete and no SS&D functions are expected to transfer prior to October 2007, little documentary evidence was available to assess DLA and the services' planning efforts. Moreover, at the time of our review, only the Air Force and Navy had begun detailed implementation planning with DLA at the depot level. Only after the BRAC SS&D recommendation is fully implemented can the precise effects of the transfer of SS&D functions to DLA on depot maintenance be determined. Furthermore, since this review only focused on the industrial sites included in the BRAC recommendation, we did not include in our review nine other service sites³ that were not included in the BRAC recommendation but that were required by the Under Secretary of Defense for Acquisition, Technology, and Logistics in a June 22, 2005, administrative decision to transfer

²Anniston Army Depot, Alabama; Corpus Christi Army Depot, Texas; Naval Aviation Depot, Cherry Point, North Carolina; Norfolk Naval Base, Virginia; Marine Corps Maintenance Center Albany, Georgia; Norfolk Naval Shipyard, Virginia; Tobyhanna Army Depot, Pennsylvania; and Warner Robins Air Logistics Center, Georgia.

³The nine sites are Davis-Monthan Air Force Base, Arizona; Letterkenny Army Depot, Pennsylvania; Naval Air Warfare Center Lakehurst, New Jersey; Naval Undersea Warfare Center Keyport, Washington; Naval Weapons Station Seal Beach, California; Pearl Harbor Naval Shipyard, Hawaii; Portsmouth Naval Shipyard, Maine; Rock Island Arsenal, Illinois; and Weapon Station Charleston, South Carolina.

similar supply-related functions and associated personnel to DLA. We conducted our review from June 2007 through September 2007 in accordance with generally accepted government auditing standards. More detailed information on our scope and methodology appears in enclosure I.

Results in Brief

DLA and the services have taken several actions in an effort to reach agreement on which SS&D functions and related positions and inventories are to transfer to DLA as a result of implementing the 2005 BRAC SS&D recommendation. These actions have been ongoing since late 2005 when DLA began its planning process for implementing the consolidation of SS&D functions across DOD. Some key actions include defining SS&D functions at the beginning of the planning process, contracting a study to assess the effects and risks associated with the transfers, establishing integrated process teams to work through problems and concerns and identify potential solutions, and conducting detailed analyses of depot positions to identify transfer candidates. DLA has also worked with the services to develop comprehensive action plans that include specific and detailed actions that identify each task's duration, including start and completion dates; percentage completed; organization and personnel assigned; criticality of task; and milestones. For example, as of June 6, 2007, the action plan for implementing the SS&D recommendation at Warner Robins Air Logistics Center included these details for 773 organizational areas and tasks. As of April 2007, DLA had reached initial agreements with the Air Force, Navy, and Marine Corps on which functions and positions are to transfer to DLA; however, the Army opposed transferring positions it considers related to its production functions. On July 20, 2007, the Under Secretary of Defense for Acquisition, Technology, and Logistics directed the Army to transfer 191.3 full-time equivalent positions to DLA, and the Army subsequently confirmed that it would transfer these positions to DLA as directed.

Although the services have reached agreement with DLA on the specific functions to be transferred, officials from all of the services have expressed concerns in four key areas regarding the transfers. First, officials from all of the services expressed concern that the insertion of DLA into the internal operations of their depot maintenance activities may hinder their ability to meet depot production schedules and maintain equipment readiness. The Army's continued reluctance to ultimately reach agreement with DLA regarding the positions to be transferred stems from concerns related to its work-in-process operations, which comprise highly integrated production and supply functions with many of the same personnel performing both functions. Army officials maintained that these positions should not transfer to DLA because of their production functions. Second, depot maintenance officials expressed concern that if the transfer of functions to DLA takes place using DLA's existing price structure, it would increase the cost of depot maintenance operations and the depots will have to pass these additional costs on to their customers by increasing their hourly rates, which, in turn, would affect their operation and maintenance budgets. Third, officials from each of the services expressed concern about the future maintenance, upgrades, and usage of service information technology systems transferring with depot maintenance supply functions to DLA. Fourth, depot maintenance and service officials expressed concerns about several human capital

issues, ranging from turnover among affected employees and limited promotion potential to the possibility of outsourcing transferred positions to the private sector. The extent to which any of these concerns may actually materialize is unknown, as implementation has not yet begun.

DLA is developing plans to minimize the risk of disrupting depot maintenance, but it faces several challenges. While no plan can guarantee that no disruptions will occur, DLA's evolving plans incorporate several features that we believe, if implemented as intended, are likely to lessen the risk associated with the transfer of functions. These features, some of which are designed to address challenges faced by DLA and the services, include the transferring of SS&D positions on an "as-is, where-is" basis, which means that employees filling those positions will perform the same duties at the same location. In addition, DLA plans to time phase the transfer of SS&D functions across the implementation period, which extends to September 2011. The general order of progression begins with the Air Force in October 2007, followed in succeeding years by the Navy, then the Marine Corps, and then the Army. DLA has established integrated process teams along with a plan of action and milestones, and has flexibility to adjust the numbers of positions to transfer if further analysis warrants. Furthermore, DLA and the Air Force have negotiated a memorandum of agreement to establish business rules that set forth the requirements and responsibilities for implementation planning. DLA and the other services are to complete such agreements as implementation continues. Finally, DLA and the services plan to negotiate agreements that will establish responsibilities, metrics to measure performance, costs, and business rules that should help minimize the risk of disrupting depot maintenance.

Our analysis of the BRAC Commission cost and savings estimates⁴ and DLA's planning documents shows that over the fiscal year 2006 to 2011 BRAC implementation period, estimated costs have increased by about \$45 million and estimated savings have decreased—by about \$1 billion—for transferring the SS&D functions and associated inventories from the military services' industrial depots to DLA. We noted changes to the estimates in three key areas: information technology costs, civilian personnel savings, and inventory-related savings. First, we found that as of September 2007, integrating the services' inventory management systems with DLA's systems is expected to cost \$79 million—an increase of \$45 million above the original 2005 BRAC Commission estimate. Second, the estimated savings associated with reducing civilian personnel are expected to be almost \$11 million—a decrease of about \$13 million—due to the elimination of fewer positions. There are no savings associated with the immediate transfer of positions from the services to DLA because the transfers are being made on an "as-is, where-is" basis. Instead, the estimate for civilian salary savings was based on the expectation that DLA would eliminate in the future 6.5 percent of the positions that transferred from the services' industrial depots to DLA, beginning in fiscal year 2007. The 6.5 percent factor was used by the

⁴The BRAC Commission estimates are based on DOD's use of the Cost of Base Realignment Actions model, which is not intended to and does not present budget quality estimates. Consequently, the costs and savings calculated by the model are likely to be different from the costs and savings that will actually materialize. The estimates as presented in this report are shown in then-year dollars to provide for equitable comparative purposes between Commission estimates and current estimates.

BRAC Commission to estimate eliminations and personnel savings. DLA has used this same factor to project personnel savings. DLA officials told us that they plan to achieve this goal over time through attrition. Third, we found that all but about \$31 million of the initial estimated savings of about \$1 billion for transferring SS&D functions and associated inventories have been eliminated. The BRAC Commission's estimate for transferring SS&D functions and associated inventories from the services' industrial depots to DLA was based on data generated by DOD during the BRAC decision-making process, and the belief that eliminating duplicate inventory—inventory stored by both the services and the DLA depots—would produce savings. However, after further review, DLA and the services found that the data were flawed. For example, war reserve materiel, materiel held for other customers, and materiel stored at the Red River Army Depot were incorrectly included in the BRAC estimating model. Therefore, the estimated savings associated with these items will not occur. Once DLA realized this, it replaced the initial estimated savings with about \$203 million in projected savings of which almost \$172 million were derived from inventory reduction initiatives that are not directly a result of BRAC actions. Finally, cost increases for certain operation and maintenance costs may be associated with the transfer of SS&D functions, but at the time of our review these cost data were not available to determine the extent to which these costs are applicable to the transfer of functions.

In commenting on a draft of this report, DOD concurred in principle with our findings and conclusions. DOD further provided comments that were intended to clarify its estimates for the savings to be achieved for the transfer of supply-related functions that it believes are attributable to BRAC. DOD's comments and our evaluation of them are discussed on page 23.

Background

On May 13, 2005, the Secretary of Defense made public his recommendations for the 2005 BRAC round. The BRAC Commission, established by law⁵ as an independent entity to evaluate DOD's recommendations, presented its findings, along with its own recommendations, to the President on September 8, 2005. The President approved the Commission's recommendations in their entirety and forwarded them to Congress on September 15, 2005. When Congress did not pass a joint resolution of disapproval of the recommendations, they became effective on November 9, 2005. DOD has until September 15, 2011, to complete the implementation of all recommendations. In our July 2005 report on the 2005 BRAC round process and recommendations,⁶ we reported that the 2005 BRAC round was different from prior BRAC rounds in that relatively few of the recommendations focused on closing active bases. In establishing goals for the 2005 BRAC round, the Secretary of Defense expressed his interest in "transforming DOD by aligning the infrastructure with the defense strategy"; consequently, several of the recommendations from the 2005 round

⁵Pub. L. No. 101-510, Title XXIX (1990) as amended by Pub. L. No. 107-107, Title XXX (2001); 10 U.S.C. § 2687 note.

⁶GAO, *Military Bases: Analysis of DOD's 2005 Selection Process and Recommendations for Base Closures and Realignments*, GAO-05-785 (Washington, D.C.: July 1, 2005).

involved business process reengineering efforts.⁷ The selection criteria incorporated into the legislation authorizing the 2005 BRAC round⁸ required DOD to give priority to four criteria dealing with military value, while the extent and timing of potential costs and savings was one of several “other” criteria that were required to be considered when finalizing proposed recommendations for realignments and closures.

The SS&D recommendation from the 2005 BRAC round is a business process reengineering recommendation that is intended to reconfigure DLA’s distribution depot network to save money and enhance the effectiveness of logistics support to operational forces. It also includes provisions to consolidate all SS&D functions and inventories at various designated service industrial locations to DLA. The complete text of this recommendation is reprinted in enclosure II. In our 2005 report, we stated that there was uncertainty regarding the magnitude of savings likely to be realized in some aspects of the DLA-managed BRAC recommendations, given assumptions regarding expected efficiency gains from business process reengineering efforts that had not been validated. We reported that the magnitude of the estimated savings was uncertain because the estimates were based on assumptions that were subject to only limited testing and had not been validated. We found that the savings estimates for the DLA-managed BRAC recommendations, for the most part, were based on historical documentation, which time did not allow us to validate. We reported that this could lead to a false sense of savings and lead to premature reductions in affected budgets in advance of actual savings being fully realized, as has sometimes occurred in past efforts to achieve savings through business process reengineering efforts.

In September 2005, DLA was designated as the business manager for implementing the SS&D recommendation within DOD. DLA is responsible for developing and updating a business plan for this recommendation and coordinating implementation efforts among all of the services. The business plan is intended to provide, among other things, details on actions and time frames, along with estimated costs and savings associated with implementing the recommendations. The SS&D business plan was submitted to OSD for approval on September 18, 2007. Under OSD direction, DLA is required to update the plan semiannually in February and August of each year until implementation actions are complete. Once implemented as planned, the SS&D recommendation will change DLA’s wholesale storage and distribution infrastructure into four hub-and-spoke geographical regions within the continental United States, with each region having one hub, known as a strategic distribution platform,⁹ and multiple spokes, known as forward distribution points.¹⁰ Each strategic distribution platform is designed to have state-of-the-art capabilities for packaging and shipping supplies to its designated customers. Distribution depots, no longer needed for

⁷Business process engineering can be generally defined as an approach for redesigning the way work is done to better support an organization’s mission and reduce costs. In this context, these recommended actions are intended to transform existing distribution and procurement processes to increase savings and more efficiently support the warfighter.

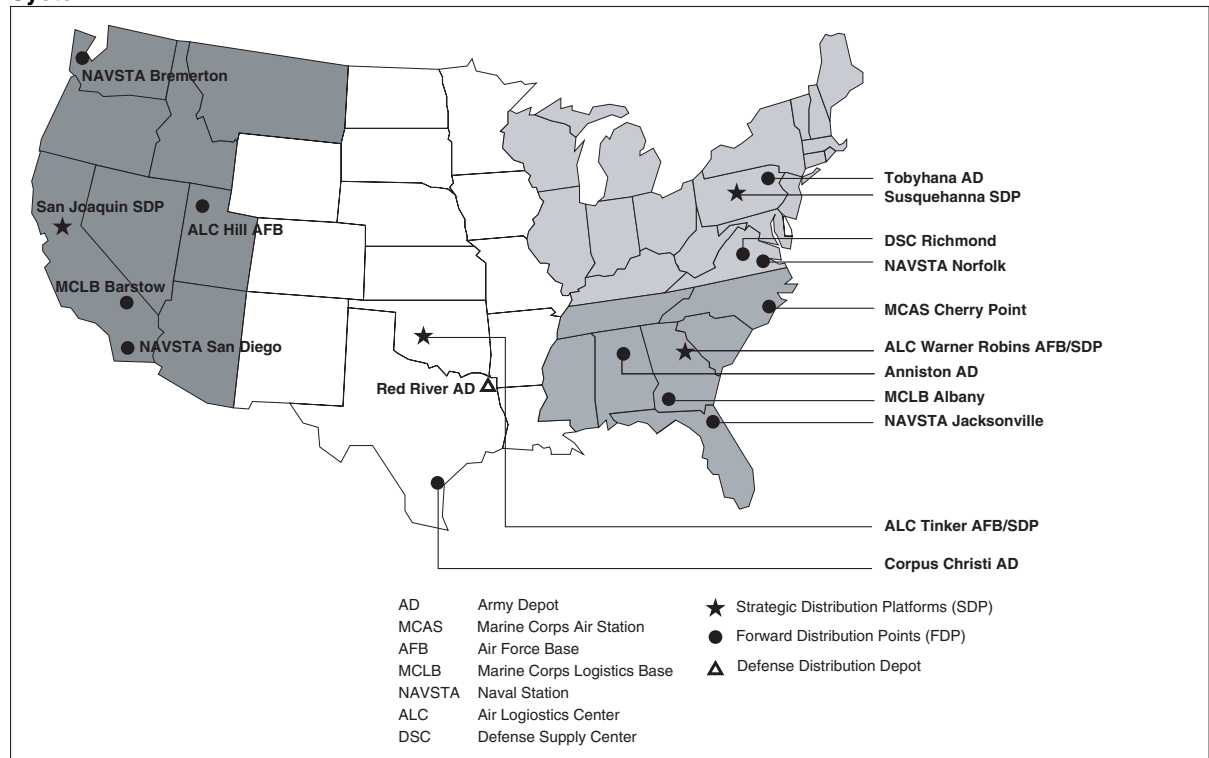
⁸National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, Title XXX (2001).

⁹A strategic distribution platform provides distribution and storage support to designated customers.

¹⁰Forward distribution points provide storage and distribution support to on-base industrial customers, and selected other local customers, and support for reimbursable end items, hard-to-handle items, and hazardous items at that location.

regional supply, will be realigned as forward distribution points and will provide dedicated receiving, storing, and issuing functions solely in support of on-base industrial customers, such as maintenance depots, shipyards, and air logistics centers. Under this recommendation, forward distribution points will consolidate all supply and storage functions supporting industrial activities, to include those internal to depots and shipyards, and those at any intermediate levels that may exist. Figure 1 identifies the locations of the reconfigured SS&D depot system.

Figure 1: Locations of DLA's Planned Reconfiguration of the Supply, Storage, and Distribution Depot System



Source: DLA.

There are 36 DLA and service SS&D activities, both inside and outside of the continental United States. However, only 26 of these activities—13 DLA depots that are collocated with 13 of the services' industrial facilities—are affected by the SS&D recommendation. One DLA distribution depot, located at the Red River Army Depot in Texas, was not mentioned by the BRAC Commission in its September 2005 report, and thus this depot is not subject to any BRAC 2005 actions. Nine other of the services' industrial facilities—two Army depots, one Air Force depot, and six Navy industrial activities—would be unaffected by the changes, because they are also not included in the BRAC recommendation. However, in order to establish a more effective and efficient supply chain, an administrative decision made by the Under Secretary of Defense for Acquisition, Technology, and Logistics on June 22, 2005, directed that the supply and storage functions and associated personnel and facilities at these 9 service facilities should also be transferred in place to DLA.

Beginning in October 2007, the Air Force is scheduled to be the first service to transfer its SS&D functions to DLA at the Warner Robins Air Logistics Center in Georgia. A draft plan of action with milestones has been developed and the Air Force

is proceeding with the implementation of the transfer. The other two air logistics centers, located at Tinker Air Force Base in Oklahoma and Hill Air Force Base in Utah, are scheduled to transfer their SS&D functions to DLA after Warner Robins. In May 2007, the Navy held pre-implementation meetings and established pre-implementation integrated process teams with DLA to begin its negotiations for developing a similar plan of action and milestones for its industrial locations.¹¹ DLA officials told us that implementation of the BRAC SS&D recommendation at the Marine Corps¹² and Army depots¹³ will follow the Navy's implementation.

DLA and the Services Have Taken Actions to Reach Agreement on Which Functions Will Transfer

DLA and the services have taken several actions in an effort to reach agreement on which SS&D functions and related positions and inventories are to transfer to DLA as a result of the 2005 BRAC SS&D recommendation. As part of the process of formulating recommendations for BRAC, the Supply and Storage Joint Cross-Service Group,¹⁴ which included DLA and service officials, defined supply, storage, and distribution services in its May 2005 report as requisitioning, receiving, storing, issuing, and distributing supplies and materiel as well as materiel management, stock control, materiel acquisition, disposal, and reutilization.¹⁵ DLA has used this definition to guide its actions for implementing the consolidation of SS&D functions across DOD. Following the approval of the BRAC recommendations in November 2005, DLA and the services began the planning process for implementing the SS&D recommendation. Initially, as planning efforts got under way, DLA contracted with the Logistics Management Institute (LMI) to assess the SS&D operations at all affected depots, identify the risks to depot operations of transferring these functions, and recommend which functions should transfer to DLA at each site. This study included site visits to all affected industrial sites by DLA and LMI officials as well as extensive data gathering and analyses. Although the study's report recommended that DLA be conservative in interpreting which functions it would assume responsibility for, DLA and OSD officials believed that the study did not take into consideration the

¹¹The Navy locations where the SS&D recommendation will be implemented are Marine Corps Air Station Cherry Point, Cherry Point, North Carolina; Naval Air Station Jacksonville, Jacksonville, Florida; Naval Station San Diego, San Diego, California; Naval Station Norfolk, Norfolk, Virginia; and Naval Station Bremerton, Bremerton, Washington.

¹²The Marine Corps locations where the SS&D recommendation will be implemented are Marine Corps Logistics Base, Albany, Georgia, and Marine Corps Logistics Base, Barstow, California.

¹³The Army locations where the SS&D recommendation will be implemented are Anniston Army Depot, Anniston, Alabama; Corpus Christi Army Depot, Corpus Christi, Texas; and Tobyhanna Army Depot, Tobyhanna, Pennsylvania.

¹⁴Because of the interest in pursuing transformation and fostering more jointness across the various defense components, seven joint cross-service groups addressing education and training, headquarters and support activities, industrial, intelligence, medical, supply and storage, and technical activities were established early in the BRAC decision-making process to formulate potential recommendations to achieve these goals. The Supply and Storage Joint Cross-Service Group pursued logistics economies to reduce the number of sites and related excess capacity across various defense components.

¹⁵The Supply and Storage Joint Cross-Service Group report also includes requirements determination in its definition, but that was subsequently removed from the definition by DLA and the OSD BRAC Office. As a result, the services are expected to continue with determining requirements, but DLA is also expected to participate as a collaborative partner in the requirements determination process.

language in the BRAC recommendation requiring the transfer of “all” SS&D functions to DLA.

Furthermore, DLA officials conducted visits to affected depots and met with key officials to better understand depot operations at each site. These visits, in conjunction with the LMI study, helped to identify SS&D functions. After these functions were identified in late 2006, DLA negotiated agreements with the Air Force and Navy on which SS&D positions would transfer and established timelines for these transfers. DLA plans to use integrated process teams,¹⁶ which will include representatives from DLA and the services, to work through problems and concerns related to the transfer of functions at each affected depot and identify potential solutions. For example, the SS&D integrated process team at Warner Robins partnered with the Air Force to conduct a manpower study that resulted in an increase of 99 positions—from 166 to 265—that would transfer to DLA from the Warner Robins Air Logistics Center. Similar manpower studies also increased the number of positions that are to be transferred to DLA at the Air Force’s other two air logistics centers.

The Marine Corps and the Army were more hesitant to transfer the SS&D functions to DLA because some of the positions considered for transfer included highly integrated production and supply functions, with the same personnel performing both functions, and there was not a clear distinction as to which positions should transfer. The OSD BRAC Office, reporting to the Under Secretary of Defense for Acquisition, Technology, and Logistics, subsequently worked with DLA and the two services on a position-by-position analysis of jobs at affected Marine Corps and Army depots to identify transfer candidates. This analysis identified job series, grade, and title; the number of full-time equivalent positions held by civilian, military, and contractor personnel; major tasks and functions performed; the proposed classification of the position (e.g., production, supply, storage, or distribution); and the rationale or support for the proposed classification. This position analysis facilitated a subsequent agreement among the Under Secretary of Defense for Acquisition, Technology, and Logistics; DLA; and the Marine Corps on April 30, 2007, that supply “begins when a demand signal is generated by a production planner or artisan in the production planning system and that all subsequent requisition processing, expediting, local purchase, credit card purchase, status monitoring, receive, stow, and issue functions, etc. that take place before material hand-off into the production stream are examples of supply, storage, and distribution activities.”

As of April 2007, DLA had reached initial agreements with the Air Force, Navy, and Marine Corps on which functions and positions are to transfer to DLA, with the understanding that the number of positions may increase or decrease as implementation matures. However, the Army opposed transferring positions it considered related to its production functions due to concerns about potential

¹⁶DLA plans to establish seven integrated process teams to work through problems and concerns and, where possible, identify solutions at each transfer site during implementation of the SS&D BRAC recommendation. The seven teams are Human Performance, Information Technology, Facilities and Equipment, Financial Management, Change Management, Supply and Distribution, and Metrics. As of July 2007, these seven teams have only been established with the Air Force and Navy.

impacts on its ability to meet maintenance production schedules. On July 20, 2007, after DLA and the Army made several unsuccessful attempts to resolve these differences, the Under Secretary of Defense for Acquisition, Technology, and Logistics directed the Army to transfer 191.3 full-time equivalent positions to DLA. These positions were identified using the same position analysis and definition of supply agreed upon by the Marine Corps. On July 26, 2007, the Army confirmed that it would transfer the 191.3 full-time equivalent positions to DLA as directed. Table 1 shows the number of full-time equivalent civilian and contractor positions anticipated to transfer to DLA at each collocated industrial depot as of September 2007.

Table 1: Number of Full-time Equivalent Civilian and Contractor Positions Anticipated to Transfer to DLA at Each Collocated Depot as of September 2007

Service	Depot location	Estimated number of full-time equivalent civilian position transfers	Estimated number of full-time equivalent contractor position transfers	Total full-time equivalent position transfers
Air Force	Hill Air Force Base, UT	231.00	0	231.00
	Robins Air Force Base, GA	265.00	0	265.00
	Tinker Air Force Base, OK	365.00	0	365.00
Navy	Marine Corps Air Station Cherry Point, NC	88.00	0	88.00
	Naval Air Station Jacksonville, FL	29.00	42.00	71.00
	Naval Station Norfolk, VA	120.00	37.00	157.00
	Naval Station Bremerton, WA	89.00	0	89.00
	Naval Station San Diego, CA	49.00	36.00	85.00
Marine Corps	Marine Corps Logistics Base Albany, GA	25.00	34.00	59.00
	Marine Corps Logistics Base Barstow, CA	20.60	43.00	63.60
Army	Anniston Army Depot, AL	63.11	5.00	68.11
	Corpus Christi Army Depot, TX	15.53	40.00	55.53
	Tobyhanna Army Depot, PA	45.66	22.00	67.66
Total	All transfer sites	1,405.90	259.00	1,664.90

Source: DLA's September 21 2007, draft SS&D business plan.

Services Have Several Key Concerns regarding the Transfer of Supply, Storage, and Distribution Functions

Although each service has agreed to transfer to DLA specific supply, storage, and distribution functions, officials from each of the services have expressed several key concerns regarding the transfers. These concerns include the following: (1) DLA's involvement in depot operations may hinder their ability to meet depot production schedules and maintain equipment readiness, (2) uncertainty as to the pricing mechanism for DLA services, (3) information technology interfaces with service and DLA systems, and (4) human capital issues. The extent to which any of these concerns may actually materialize is unknown, as implementation has not yet begun.

Services Concerned That DLA's Insertion into Depot Operations May Hinder Their Ability to Meet Depot Production Schedules and Maintain Equipment Readiness

Officials from all four services expressed concern that the insertion of DLA into the internal operations of their depot maintenance activities may hinder their ability to meet depot production schedules and maintain equipment readiness. All stated that as long as they receive the proper materiel at the correct time, they had no preference as to who provides the materiel. However, they expressed concern that DLA may not be able to provide the same level of service that they currently provide for themselves. To the extent that the level of service provided is lower under DLA, these officials believed it would degrade their ability to meet production schedules and maintain equipment readiness, which could potentially affect ongoing operations. However, DLA officials told us that they have asked the services for metrics and baseline data and found that the services may not have all of the supply function metrics and historical data needed for DLA to benchmark its performance against the level of service that the services have provided for themselves. Officials from all of the services commented that as the performance metrics are developed for the functions transferring to DLA, it would be more beneficial if they were tied to meeting depot maintenance production schedules instead of those typically associated with supply performance. Development of metrics is the focus of one of several integrated process teams cochaired by DLA and each service. DLA officials stated that metrics are to be jointly agreed to and are to measure support for depot maintenance production and traditional supply effectiveness.

In addition, depot maintenance officials said that they have some concerns that DLA may not be able to retain an appropriate staffing level to carry out the transferred functions. Service officials said that depot commanders currently have the flexibility and authority to handle surge requirements or downsize the workforce, adjust operating schedules, working hours, and take other staffing actions as needed to adjust to varying workload levels and requirements. For example, Army depot maintenance officials informed us that a depot can quickly rightsize its supply function by moving personnel around to other areas of the depot as required. They are concerned that DLA with its smaller workforce may not be able to rightsize as quickly to meet surge requirements or to reduce unnecessary costs when depot workloads drop off. However, since agreements have not yet been reached to define the command relationship between the depot commanders and DLA, depot command officials are concerned that the depot commanders may not be able to establish and modify the work schedules for DLA employees or direct them to work overtime during surge periods. Depot command officials are also concerned that the depot commanders will have little recourse if DLA fails to perform well, and sought authority for depot commanders to have input into the performance rating of the DLA representative in charge of depot SS&D functions. Furthermore, when primary sources of supply cannot be obtained in time to meet schedules, depot commanders also have the authority to make purchases with credit cards, even though that may not be the most cost-effective source. Uncertainty and concern therefore exist among the services as to whether this same flexibility would continue with DLA in charge of SS&D functions. According to DLA officials, even though the local purchasing function is transferring to DLA, the services are not restricted from maintaining a purchase card as a contingency measure.

An integral part of the command and control issue pertains to a process referred to as work in process. Work in process consists of the components¹⁷ and major subassemblies¹⁸ removed from weapon systems—such as tanks, ships, tracked and wheeled vehicles, and aircraft—during disassembly, as well as the new items purchased to support weapon system depot maintenance. During disassembly, the components and major subassemblies are removed from the weapon system, cleaned, and evaluated for future use. Items found serviceable are held until they are needed for the reassembly of the weapon system. Items needing repair are sent to the depots' back shops or subcontractors for repair, and once repaired are held until they are needed to support reassembly; other items may be found broken or worn beyond repair and must be replaced with new items. In implementing the BRAC recommendation, the OSD BRAC Office has distinguished between work-in-process materiel that is stored within proximity to the depot maintenance production line and that which is temporarily stored away from the line until it is needed to support weapon system reassembly. According to the OSD BRAC Office, the management of materiel within the immediate production area is part of the production process and consequently is to be retained by the service maintenance depots. However, the OSD BRAC Office has defined the management of materiel held and stored away from the production area prior to weapon system reassembly as an SS&D function that should transfer to DLA.

Army officials disagree with this distinction and told us that the implementation of the SS&D recommendation inserts DLA into the core of the Army's depot maintenance mission and breaks the unity of command that the depot commanders currently have over the maintenance production process. The Army's continued reluctance over time to reach agreement with DLA regarding the positions to be transferred stems from concerns related to its work-in-process operations. Work in process comprises highly integrated production and supply functions, with many of the same personnel and equipment performing both functions. Army officials maintained that these highly integrated positions should not transfer to DLA because of their production functions. In particular, the Army is concerned about transferring storage functions and positions associated with work-in-process materiel. The Army contends that work-in-process materiel should be retained under the depot commander's control, regardless of whether it is held on, near, or away from the production line. This contention is because the storage and distribution of repairable, serviceable, and new materiel is critical to supporting the weapon systems' programmed depot maintenance schedules, which are ultimately the responsibility of the maintenance depot commander. For example, using OSD's definition, depot maintenance employees would remove the items from a tactical vehicle as it is disassembled and evaluate whether the items require repair work. Items not requiring repair would be sent to DLA to be stored until they are needed for final reassembly. Items requiring repair would be sent to the appropriate depot repair shops and, once repaired, they also would be sent to DLA for storage. When needed for final reassembly, the depot's production planners would recall the items from DLA for distribution to the depot assembly line. According to the Army, these internal

¹⁷Components include items such as hydraulics, landing gear, and electronics.

¹⁸Major subassemblies include items such as engines, transmissions, and airframes.

movements of equipment and materiel would now involve two separate organizations and two separate chains of command for what is really a single mission—depot maintenance. Without direct control of work in process, Army officials told us that a commander's ability to make monthly and daily production decisions and rapidly shift resource priorities in response to changing customer requirements will be severely restricted, which could potentially adversely affect readiness. DLA and the OSD BRAC Office disagreed with the Army because the recommendation language requires that "all" SS&D functions are to transfer.

The Army elevated its concerns to the Under Secretary of Defense for Acquisition, Technology, and Logistics on several occasions, formally disagreeing with OSD's definition of work in process and in one instance requesting an exception from this definition for the Army. However, on July 20, 2007, after a joint assessment of the production functions that must transfer to DLA by the Army, DLA, and the DOD Office of General Counsel, the Under Secretary of Defense for Acquisition, Technology, and Logistics directed the Army to transfer to DLA all of the SS&D functions specified in the BRAC recommendation in accordance with the OSD definition. On July 26, 2007, the Army agreed to comply with OSD's direction.

The Air Force, Navy, and Marine Corps also have work-in-process materiel embedded in their production line depot maintenance operations. The Marine Corps' work-in-process operation is very similar to the Army's in that components and subassemblies are stored at locations away from the production line. While the Marine Corps has agreed to transfer all of its SS&D functions to DLA, it shares some of the same concerns as the Army about potentially losing control of its work in process when the SS&D functions transfer to DLA. The work-in-process operations for the Air Force and the Navy's aviation work-in-process operations at its fleet readiness centers are also similar to the Army's, but their work-in-process materiel is stored in the same general area as the production line. As a result, officials from these two services stated that they expect to retain control over their work-in-process materiel and not transfer this materiel to DLA.

Finally, Army and Marine Corps depot officials are concerned that transferring the storage and distribution management of their work in process to DLA will erode many of the gains made in recent years in reducing repair cycle time and increasing depot capacity through business process improvement initiatives. According to Army and Marine Corps depot officials, one initiative that enabled them to reduce repair cycle time was moving and temporarily storing work-in-process materiel away from the production line until needed. These officials believed that transferring this materiel to DLA could produce unintended consequences. Specifically, Army and Marine Corps depot officials are concerned that the transfer of the storage and distribution management of work-in-process to DLA could result in depot production managers lacking confidence in the timely return of work in process materiel. This could potentially result in depot production managers finding ways to avoid sending work in process materiel to temporary storage away from the production line, thereby eroding many of the efficiencies gained through process improvement initiatives. To the extent that such erosion occurs, it could hinder the services' ability to meet depot production schedules and maintain equipment readiness.

Services Concerned That Use of DLA's Existing Pricing Structure Would Lead to an Increase in the Overall Cost of Depot Maintenance

Depot maintenance officials expressed concern that if the transfer of production integrated supply functions to DLA takes place using DLA's existing price structure, it will increase the cost of depot maintenance operations and depots will have to pass these additional costs on to their customers by increasing their hourly rates.

Customers would thus pay more for equipment maintenance, which, in turn, would affect their operation and maintenance budgets. According to depot officials, under DLA's standard schedule of supply transaction charges, customers are charged for each transaction. As a result, they are concerned that transferring the integrated supply functions to DLA will substantially increase the cost to the depots and their customers if DLA retains its current pricing practices. DLA's plans for developing a new pricing methodology as it gains experience in managing the depots are discussed below, in the section on performance-based agreements.

Services Concerned about Maintaining and Upgrading Depot Information Technology Systems and Their Interfaces with DLA Systems

Officials from each of the services expressed concern about the future maintenance and upgrades of service information technology systems transferring with depot maintenance supply functions to DLA, as well as broader implications to the wider service network enterprise resource planning systems that are dependent on depot maintenance information. DLA's supply organizations use DLA's distribution supply information technology system for various supply-related processing functions, such as receipt, storage location, issue, and inventory accountability. The manner in which DLA's information systems would interface with the services' depot maintenance information systems is unclear. For example, Air Force officials said that they have agreed to turn their maintenance tracking system over to DLA and DLA has agreed to use it. However, Air Force officials expressed concerns that when DLA is faced with competing resource demands for improvements to information technology in the future, DLA may not choose to maintain or upgrade the system as the Air Force would and may over time replace the Air Force system with DLA's own information technology system in the depot. Air Force officials expressed concern that DLA's system might not be interoperable with the Air Force's systems, and the Air Force could lose its ability to track the status of reparable items, which could impede production. In addition, according to Army depot officials, DLA's information technology system is not compatible with the standard depot systems used by the Army's depots for production control or supply storage and retrieval, which are configured to interface with the standard depot system. Moreover, the Army is in the process of replacing its standard depot system with its major enterprise resource planning system—the logistics management program—and is already facing a number of challenges with that transition at the one depot where it has been implemented thus far. Army depot officials are concerned that if DLA replaces the Army systems with its own distribution supply system, the transition will disrupt depot operations and may not provide the production control and financial management interfaces the Army needs to manage its depot maintenance operations. Ultimately, Army officials believe that replacing their systems with DLA's system will increase DOD's overall investment costs for information system development.

Services Concerned about Human Capital Issues

Depot maintenance and service officials expressed concerns about several human capital issues, ranging from turnover among affected employees and limited promotion potential to the possibility of outsourcing transferred positions to the private sector. For example, service officials told us that the pending transfers are already leading to turnover among affected depot maintenance employees, which poses a risk to the success of the “as-is, where-is” transfer concept. In anticipation of the transfer, some workers are making decisions to retire or are pursuing positions elsewhere in the depots. Tobyhanna Army Depot officials, for instance, said that since the pending transfer process was announced, six employees who would have been identified to transfer to DLA have either retired or found positions in other areas of the depot. In addition, according to Army depot personnel officials, depot employees expressed concern that their job prospects may be more limited in the event that DLA conducted a reduction in force after their positions transferred. They stated that it is unclear whether depot employees will be able to exercise the bump and retreat rights¹⁹ that are normally associated with a reduction in force within the depot workforce or if they will be limited to exercising those rights only within DLA after they become DLA employees. Furthermore, some Army employees told us they were concerned that their positions would be downgraded by DLA. Employee union representatives said that depot employees’ future advancement potential may be more limited after they are transferred to DLA, unless they are willing to move to other DLA locations. For example, the union representative at Tobyhanna Army Depot said that some Army employees transferred to DLA would be limited to pay levels in wage grades 5 and 6, unless they were willing to move to DLA operations in Susquehanna, Pennsylvania, or Columbus, Ohio. If these employees had remained as Army depot employees, they could have potentially advanced to other positions at higher pay grades because the Army positions focus on multiple tasks and disciplines, whereas the DLA positions have a single-focused career path. Union officials at Army depots also said that as DLA employees, they will no longer be eligible for inclusion in the depot’s annual bonus awards, which they said could be as high as \$1,500 per employee. These union officials expressed concern that the loss of bonus eligibility might create disharmony between employees transferring to DLA and the depot employees they must continue to work with closely on a day-to-day basis. DLA officials pointed out that there are awards and bonus programs of equal value for DLA employees and that employee performance in DLA will be rewarded as it is in the services. Moreover, other Army employees said they were concerned that after becoming DLA employees they would lose the intangible feeling of being on the depot maintenance team and the close ties they currently feel to the warfighter as Army employees repairing major weapon systems.

¹⁹When an agency conducts a reduction in force, some employees are allowed to bump other employees or retreat into other positions. “Bumping” means displacing an employee in the same competitive area who is in a lower-tenure group (type of appointment category). “Retreating” means displacing an employee in the same competitive area who has fewer years of service within the same tenure group.

Service and depot officials also expressed concern about a goal DLA has established for a 6.5 percent reduction in positions over time due to expected increases in operational efficiency once they take control of the services' SS&D operations. These officials are concerned because the depots have instituted several efficiency initiatives and some have also undergone A-76 competitions since the time of the 2005 BRAC Commission's estimates. As a result, fewer service personnel are performing all depot operations, including those SS&D functions that will transfer to DLA, and they believe that achievement of the 6.5 percent position reduction goal could lead to understaffing of the depots. DLA officials told us, however, that they plan to achieve this goal over time based on their actual experiences in performing the SS&D functions at the depots, and any elimination of positions would likely be accomplished through attrition.

Furthermore, officials from all of the services, as well as the affected employees and their union representatives, expressed concern that an A-76 competition might result in the outsourcing of the depot maintenance supply functions to the private sector.²⁰ According to union officials, private firms successful in A-76 bids typically pay their employees a lower wage and provide fewer benefits than would be available in the government positions they replace. Depot maintenance officials expressed similar concerns, and added that contracting out the functions may hinder the depot commanders' ability to address any deficiencies in the management of work in process because the A-76 contract would place DLA as an intermediary between the depot commander and the contractor performing the functions. According to Army depot maintenance officials, in previous A-76 competitions DLA organizations reduced staffing levels in their attempts to compete as the most efficient organization, and consequently the Army has had to augment its workforce with depot employees to adequately support depot maintenance operations. For example, DLA's supply operations at the Tobyhanna Army Depot were retained as a government operation following an A-76 competition. However, when streamlining operations to compete with the private sector, DLA lost some experienced retrograde materiel²¹ inspectors through attritions, and consequently the DLA warehouse experienced a backlog of retrograded material that was needed on the depot maintenance production line to meet warfighter requirements. To address this problem, the depot placed two of its employees permanently at the DLA warehouse to assist in the identification of retrograded items.

²⁰Under the A-76 process, otherwise known as competitive sourcing, the military services and other defense components conduct a public/private competition for a commercial activity currently performed by government personnel to determine whether it would be cost-effective to contract with the private sector for that activity's performance. As of fiscal year 2006, DLA had conducted approximately 16 competitive-sourcing A-76 reviews, covering 5,019 full-time equivalent government positions, with about half of the operations staying with the government as the most efficient organization and about half going to the private sector.

²¹Retrograde materiel is broken repairable components from combat areas that are returned to depots for repair.

DLA Is Developing Plans to Minimize the Risk of Disrupting Depot Maintenance, but Faces Several Challenges

DLA is developing plans to minimize the risk of disrupting depot maintenance, but it faces several challenges. While no plan can guarantee that no disruptions will occur, DLA's evolving plans incorporate several features that we believe, if implemented as intended, are likely to lessen the risk associated with the transfer of functions. These features, some of which are designed to address challenges faced by DLA and the services, include the following:

- **“As-is, where-is” transfer.** The transfer of SS&D positions is to occur on an “as-is, where-is” basis, which means that employees filling those positions will perform the same duties at the same location during the same working hours. According to DLA officials, the only difference will be that the employees will then work for DLA instead of one of the services. To the extent that this construct is implemented, there would likely be no disruptions to maintenance production schedules because of the transfers in place. However, DLA and service officials said that the “as-is, where-is” transfer process may encounter some short-term difficulties due to the possibility of current service employees deciding to leave their positions before the transfer date. If this occurs, DLA may be challenged to quickly fill position vacancies and maintain needed expertise to minimize production disruptions.
- **Time-phased transfers.** According to DLA officials, the transfer of SS&D distribution functions is expected to be phased across the implementation period, which extends to September 2011. For example, the Air Force is expected to begin transferring functions in fiscal year 2008, followed by the Navy and Marine Corps in fiscal year 2009, and the Army in fiscal year 2010. Additionally, within each service the transfers are to take place sequentially at the different depots. For example, the Air Force expects to transfer functions at Warner Robins Air Force Base Air Logistics Center in early fiscal year 2008, followed by Tinker Air Force Base Air Logistics Center in the second quarter of fiscal year 2008, and concluding with Hill Air Force Base Air Logistics Center in the third quarter of fiscal year 2008. According to DLA officials, time phasing of transfers is intended to allow for the focused dedication of resources for individual sites. This approach also allows for the capture of “lessons learned” and revisions to plans as implementation proceeds. In addition, the time-phased approach is intended to help overcome the services’ apprehension about inserting DLA in the internal operations of their depot maintenance activities, as discussed above.
- **Integrated process teams and the plan of action and milestones.** At each transfer site, DLA and the services plan to establish seven integrated process teams²² that include representatives from DLA and the services to facilitate the detailed planning associated with the transfer of functions. The teams are to develop a comprehensive action plan that includes specific and

²²The seven teams are Human Performance, Information Technology, Facilities and Equipment, Financial Management, Change Management, Supply and Distribution, and Metrics.

detailed actions that identify each task's duration, including start and completion dates; percentage completed; organization and personnel assigned; criticality of task; and milestones. For example, as of June 6, 2007, the action plan developed by the seven teams, referred to as the Plan of Action and Milestones, for Warner Robins Air Logistics Center included these details for 773 organizational areas and tasks. DLA and Air Force officials told us that as implementation progresses, they intend to develop similar plans to guide the transfers for all other affected depots and activities for the Air Force and the other services, using the Warner Robins plan as a model. The teams meet regularly to discuss implementation issues, work through problems and concerns, and identify potential solutions and mitigating actions where possible. For example, an early issue involved the ability of transferred employees to access the software systems that manage the SS&D functions in support of the production line after they transfer to DLA. These software systems currently are only accessible by Air Force employees. To resolve this issue, the integrated process teams have identified a number of possible solutions, one of which is being tested through a pilot process.

- **Flexibility on numbers of positions to transfer.** While DLA and the services initially agreed to an estimated number of full-time equivalents to transfer, the exact number of full-time equivalents and the specific employees to be transferred at each site will not be determined until detailed implementation planning occurs with each service at each site. The initial number of full-time equivalents agreed to by DLA and the service can be adjusted—either up or down—in accordance with the current situation at each site as implementation proceeds, if further analysis warrants it. For example, as discussed above, based on data developed during the implementation planning process, the Air Force is planning to transfer more full-time equivalents than originally estimated.
- **Memorandums of agreement.** DLA and the services are to negotiate memorandums of agreement to establish business rules that set forth the requirements and responsibilities for implementation planning and activities. As of August 2007, the Air Force was the first service that had negotiated a draft memorandum with DLA. The draft memorandum of agreement between DLA and the Air Force establishes the membership on integrated process teams, leadership, points of contact to resolve implementation issues, biweekly teleconference requirements, and the Plan of Action and Milestones as the detailed planning document for implementation. The memorandum is to be reviewed quarterly and updated as necessary in a collaborative effort between DLA and the Air Force. The other services will be negotiating similar memorandums of agreements, using the Air Force memorandum as a model, and they plan to incorporate lessons learned from the Air Force's experiences.

- **Performance-based agreements.** DLA and the services plan to negotiate performance-based agreements²³ that will establish the responsibilities, metrics to measure performance, costs, and business rules that should help minimize the risk of disrupting depot maintenance. The overarching goal for these agreements is for DLA to provide the same level of service at the same or less cost as is currently provided by the services' SS&D operations. DLA and service officials stated that reaching agreement on specific metrics to measure the level of service DLA provides will be a challenge. These officials also said that reaching agreement on the cost for SS&D functions and the mechanism by which DLA will bill the services will be a challenge because the data required for these calculations are not readily available. At the time of our review, DLA officials told us that they do not intend to use the same supply transaction fee schedule they now use, although they have not yet developed an alternative price methodology. For an unspecified interim period, DLA officials plan to maintain the current level of performance at the same cost, operating the integrated supply function on a cost reimbursable basis, until sufficient information on operating cost and performance is available to develop a new pricing methodology. DLA officials told us that they plan to be able to offer the depots a pricing methodology that allows them to purchase increasing levels of performance based on price. Additionally, DLA plans to establish appropriate business rules and processes for retail SS&D functions, such as credit card purchases, local purchases, and overtime or shift work, which DLA and service officials agreed may be a challenge because retail supply functions are new to DLA. DLA and OSD officials have stated that they will work with depot commanders to ensure that they have the same authorities that they currently have to authorize local credit card purchases, which are used to enable depot commanders to obtain needed supplies when primary sources of supply will not be available in time to meet maintenance schedules. With respect to naval shipyards, all of the credit card buyers are transferring to DLA, so shipyard commanders will expect DLA to acquire all materials when needed. In addition, the September 21, 2007, business plan includes a provision that the depot commanders will provide input into the performance ratings of the DLA maintenance depot representatives.

Estimated Costs Increased and Estimated Savings Decreased for Transferring the Services' SS&D Functions to DLA

Our analysis of the original BRAC Commission cost and savings estimates²⁴ and other documents shows that over the fiscal year 2006 to 2011 BRAC implementation period, estimated costs have increased by \$45 million and estimated savings have

²³ Performance-based agreements are defined as the negotiated agreements between the major stakeholders that formally document the performance and support expectations and resources to achieve the desired outcome.

²⁴ As in all previous BRAC rounds, the BRAC Commission estimates are based on DOD's use of the Cost of Base Realignment Actions (COBRA) model, which provides a standard quantitative approach to compare estimated costs and savings across various proposed recommendations. The COBRA model relies to a large extent on standard factors and averages but is not intended to and consequently does not present budget quality estimates. As a result, the costs and savings calculated by the model are likely to be different from the costs and savings that will actually materialize.

decreased—by about \$1 billion—for transferring the SS&D functions and associated inventories from the military services’ industrial depots to DLA. We noted estimate changes in three key areas: information technology costs, civilian personnel savings, and inventory-related savings. Specifically, we found that as of September 2007, integrating the services’ inventory management systems with DLA’s systems is expected to cost almost \$79 million—an increase of \$45 million above the original 2005 BRAC Commission estimate. In addition, the estimated savings associated with reducing civilian personnel are expected to be almost \$11 million—a decrease of about \$13 million—due to the elimination of fewer positions. Furthermore, all but about \$31 million of the initial estimated savings of about \$1 billion for transferring SS&D functions and associated inventories have been eliminated because the potentially duplicative items on which the savings were based were not duplicative. Once DLA realized that the estimated savings, which were based on flawed data generated during the BRAC decision-making process, would not occur, it replaced the initial savings estimate with about \$203 million in estimated savings. However, about \$172 million of that revised estimate was derived from initiatives that are not directly a result of BRAC actions and is therefore not savings attributable to BRAC. Finally, cost increases for certain operation and maintenance costs may be associated with the transfer of SS&D functions, but at the time of our review these cost data were not available to determine the extent to which these costs are applicable to the transfer of functions.

Estimated Information Technology Costs Have Increased

Our analysis of the SS&D business plan shows estimated information technology costs of transferring SS&D functions and associated inventories have increased by \$45 million compared to the 2005 BRAC Commission estimate. Specifically, the estimated information technology costs for integrating each of the four services’ current inventory management software systems with DLA’s systems have increased to almost \$79 million, an increase of more than 130 percent. The BRAC Commission estimate for these costs was about \$34 million for the fiscal year 2006-2011 BRAC time period. However, information technology requirements and costs were unknown at the time the BRAC Commission developed its estimates, and the \$34 million was a placeholder amount that was expected to change. A breakdown of the information technology estimated cost increases by each depot is in enclosure III. According to service officials, these costs may continue to increase once the work of integrating DLA’s systems with the services’ systems actually begins. This is because modernization of existing business systems and integration of depot production activities have complicated the services’ ability to accurately identify their information technology requirements, which impedes their ability to estimate information technology costs.

Estimated Civilian Salary Savings Have Decreased

Our analysis shows that the estimated personnel savings for transferring SS&D functions and associated inventories from the services’ depots to DLA have decreased about \$13 million from the original 2005 BRAC Commission estimate due to a decrease in estimated civilian salary savings. There are no savings associated with the immediate transfer of positions from the services to DLA because the

transfers are being made on an “as-is, where-is” basis, which means that transferred employees will perform the same duties at the same locations. Instead, the estimate for civilian salary savings was based on the expectation that DLA would eliminate in the future 6.5 percent of the positions that transferred from the services’ industrial depots to DLA, beginning in fiscal year 2007. The 6.5 percent factor was used by the BRAC Commission to estimate eliminations and personnel savings, and DLA has used this same factor to project personnel savings in its business plan. DLA officials told us that they plan to achieve this goal over time based on actual experiences in performing the SS&D functions at the depots, and any elimination of positions would be accomplished through attrition. The 2005 BRAC Commission based its civilian salary savings estimate of about \$24 million on the projected elimination of 114 positions sometime after the transfers had taken place. However, based on agreements reached between DLA and each of the services as of September 2007, only 92 positions—22 fewer positions than originally estimated—are expected to be eliminated or transferred, which is a reduction of 19 percent. Furthermore, these transfers and eliminations will begin later than fiscal year 2007 as originally estimated, which reduces the time period in which the associated savings can accrue. As of September 2007, no positions have been eliminated and no civilian salary savings have occurred because implementation of the transfers is not expected to begin until October 2007. The September 21, 2007, draft business plan estimates that civilian salary savings will now be almost \$11 million, which is a decrease of about \$13 million from the original BRAC Commission estimate—a reduction of 55 percent. A breakdown of the changes in planned eliminations of civilian positions at each of the services’ industrial depots appears in enclosure III. One of the reasons for fewer eliminations is that since the time of the 2005 BRAC Commission’s estimates, the services’ industrial depots have instituted several efficiency initiatives and some have also undergone A-76 competitions. These actions together have resulted in fewer people performing all depot operations, including those SS&D functions that will transfer to DLA.

Estimated Inventory Reduction Savings Mostly Have Been Eliminated

Our analysis of the September 21, 2007, SS&D business plan shows that all but about \$31 million of the BRAC Commission’s estimated inventory reduction savings of about \$1 billion²⁵ have been eliminated for the fiscal year 2006-2011 time period. The BRAC Commission’s estimate for transferring SS&D functions and associated inventories from the services’ industrial depots to DLA was based on the belief that eliminating duplicate inventory—inventory stored by both the services and the DLA depots—would produce both onetime and recurring savings.²⁶ However, after further review of the potentially duplicative items, DLA and the services found that data generated by DOD during the BRAC decision-making process were flawed. For example, war reserve materiel, materiel held for other customers, and materiel stored at the Red River Army Depot were incorrectly included in the BRAC estimating model. These items were not actually duplicative and thus could not be eliminated. As a result, the savings associated with these items will not occur. In addition, the original savings estimate included service depots that were either not collocated with

²⁵In then-year (current) dollars.

²⁶Recurring savings would result from avoiding the costs associated with storing inventory.

DLA depots or were outside the continental United States, and therefore these items also could not be considered duplicative.

Once DLA realized that the estimated savings from duplicate inventory would not occur as originally planned, it replaced the \$1 billion initial savings estimate in its business plan with estimated savings from four inventory reduction initiatives.²⁷ These four initiatives are expected to produce about \$203 million in savings during the fiscal year 2006-2011 BRAC implementation period.²⁸ While these initiatives are inventory related and may produce savings, we believe that three of these initiatives, totaling about \$172 million, are not the direct result of BRAC actions and therefore are not BRAC savings. However, we believe that the \$31 million from a DLA initiative is related to eliminating duplicate inventory and thus may be appropriately counted as estimated BRAC savings. Furthermore, to further reduce the anticipated inventory savings loss, the draft SS&D business plan states that a June 21, 2006, Infrastructure Steering Group²⁹ decision allowed the inclusion in the SS&D business plan of an additional \$61 million in savings that occurred in fiscal years 2004 and 2005—which was prior to the effective date of the BRAC SS&D recommendation. Although the draft SS&D business plan notes that these savings are not reflected in the financial displays for the fiscal year 2006-2011 BRAC implementation period, we believe that the inclusion of these savings in the business plan presents a false impression of the estimated savings that are attributable to the BRAC SS&D recommendation.

Additional Cost Increases May Be Associated with the Transfer of SS&D Functions as Implementation Proceeds

Cost increases in several other areas may be associated with the transfer of SS&D functions as implementation proceeds. While the business plan shows about \$243 million in increased operation and maintenance costs, at the time of our review, implementation had not proceeded to the point where we could determine how much, if any, of these costs could be attributed to the transfer of SS&D functions and how much should be attributed to other changes associated with reconfiguring DLA's distribution depot network. Currently, the business plan shows increased costs of about \$115 million to rewarehouse and redistribute inventories among the DLA distribution depots. As implementation continues it is likely that costs will continue to change and, depending on the agreements reached between DLA and the services, it is possible that additional costs could be associated with the transfer of SS&D functions.

²⁷These four initiatives were provided by the Army, Air Force, Marine Corps, and DLA. They were designed to create efficiencies through reducing and phasing out obsolete inventory and improving procurement practices.

²⁸The September 2007 draft SS&D business plan states that inventory savings associated with four service and DLA inventory reduction initiatives were being substituted for the original inventory savings. According to DLA officials, this decision was not documented.

²⁹The Infrastructure Steering Group is the governing body that oversees implementation and approval of business plans for the 2005 BRAC round recommendations.

Concluding Observations

In the 2005 BRAC round, the BRAC Commission made several recommendations that involve reengineering of business processes affecting many activities and installations across DOD. The transfer of SS&D functions and consolidation of associated inventories required as part of the 2005 BRAC SS&D recommendation represent significant transformational actions and changes in the manner in which both the military services and DLA carry out SS&D functions at various depot maintenance locations. These actions have the potential to improve the department's supply-related operations, provide better support to the warfighter, and save money. However, they also have the potential to adversely affect depot maintenance operations, at least temporarily, as new business processes are put in place during a time of higher maintenance demands in a wartime environment. This has led to the military services expressing concerns about meeting depot maintenance production schedules and maintaining equipment readiness and support to the warfighter. DLA and the services are in the early stages of implementing these required actions, so it is too early to tell whether the department's goals will be fully met and the services' concerns eased. As of September 2007, DLA and the services have worked together to study, analyze, and reach agreement on the applicable SS&D positions that will transfer to DLA. While DLA's planning process incorporates several key elements that are intended to provide for a smooth transition and mitigate the risk of disrupting depot operations, a plan, in and of itself, cannot guarantee success. Therefore, continued collaboration between the services and DLA and periodic monitoring by OSD is critical to ensure that implementation actions are on track and that issues that may arise and adversely affect depot operations are resolved as implementation proceeds.

Moreover, while implementation of the transfer of SS&D functions has the potential to improve supply-related operations and save money, our analyses show that the estimated costs for implementing the transfer actions have increased from those put forth by the BRAC Commission and that estimated savings have decreased. Furthermore, the current savings estimate includes projected savings from several service inventory reduction initiatives that were not a direct result of the BRAC recommendation, but that were included in the draft business plan to reflect potential savings that DOD contends are attributable to BRAC. Although further recurring savings may accrue over time as implementation proceeds, the magnitude of the actual savings as DLA assumes the SS&D functions at specified service depot maintenance locations remains to be seen. Because achieving savings is one of several BRAC goals and the magnitude of the expected savings under the SS&D recommendation is uncertain at this point in time, it is critical that the estimated savings attributable to BRAC be monitored, and adjusted as necessary, as implementation proceeds so that Congress and DOD decision makers have the best data possible to gauge to what extent the BRAC savings goal is met.

Agency Comments and Our Evaluation

In comments on a draft of this report, DOD stated that it concurred in principle with our findings and conclusions. DOD's comments are reprinted in enclosure IV. DOD

also provided technical comments, which we have incorporated into this report as appropriate.

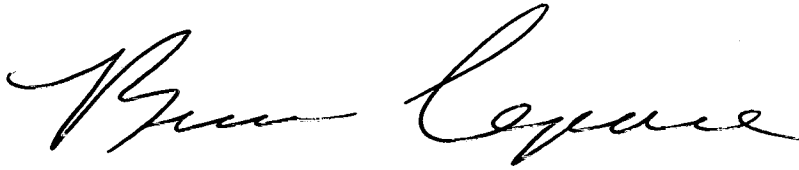
DOD further provided comments that were intended to provide clarity to the projected savings that it believes are attributable to the BRAC SS&D recommendation. We had noted in the report that DLA had replaced the initial estimated savings of about \$1 billion with about \$203 million in projected savings, of which about \$172 million were derived from inventory reduction initiatives put forth by the military services that are not directly a result of BRAC actions. DOD stated that it considered these estimated savings to be “enabled by the BRAC recommendation and therefore should be attributable to the recommendation.” We disagree and continue to believe that the \$172 million in expected savings resulting from the services’ initiatives should not be counted as BRAC savings. As we stated in our draft report, while these initiatives are inventory related and may produce savings, we believe that they are not the direct result of BRAC actions and therefore are not BRAC savings. These particular savings initiatives respond to ongoing regulatory requirements³⁰ to identify and dispose of obsolete inventory, or were initiated prior to November 2005 when the BRAC recommendations became effective.³¹ As a result, because we believe that the associated expected savings are not the result of a BRAC action and would have occurred regardless of BRAC, we do not believe that these savings should be counted as BRAC savings.

We are sending copies of this report to other congressional committees and members; the Secretary of Defense; the Secretaries of the Army, Navy, and Air Force; the Commandant of the Marine Corps; and the Director, Office of Management and Budget. We will make copies available to others upon request. In addition, the report will be available at no charge on GAO’s Web site at <http://www.gao.gov>.

³⁰DOD Supply Chain Materiel Management Regulation, DOD 4140.1-R, Section C2.9 Item Reductions (May 23, 2003).

³¹Of the \$172 million, almost \$119 million in savings was associated with several military services’ initiatives that implemented ongoing annual regulatory requirements to identify and dispose of obsolete or unneeded inventory. Another \$53 million in savings during the BRAC implementation period was associated with an Air Force inventory reduction initiative that was initiated prior to November 9, 2005, when the BRAC recommendations became effective.

If you or your staff have any questions regarding this report, please contact me at (202) 512-4523 or leporeb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in enclosure V.

A handwritten signature in black ink, reading "Brian Lepore". The signature is fluid and cursive, with the first name "Brian" and last name "Lepore" clearly distinguishable.

Brian J. Lepore
Director, Defense Capabilities and Management

Enclosures - 5

List of Congressional Addressees

The Honorable Carl Levin
Chairman
The Honorable John McCain
Ranking Member
Committee on Armed Services
United States Senate

The Honorable Daniel K. Inouye
Chairman
The Honorable Ted Stevens
Ranking Member
Subcommittee on Defense
Committee on Appropriations
United States Senate

The Honorable Tim Johnson
Chairman
The Honorable Kay Bailey Hutchison
Ranking Member
Subcommittee on Military Construction,
Veterans Affairs, and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Saxby Chambliss
United States Senate

The Honorable Ike Skelton
Chairman
The Honorable Duncan L. Hunter
Ranking Member
Committee on Armed Services
House of Representatives

The Honorable John P. Murtha
Chairman
The Honorable C.W. Bill Young
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

The Honorable Chet Edwards
Chairman
The Honorable Roger F. Wicker
Ranking Member
Subcommittee on Military Construction,
Veterans Affairs, and Related Agencies
Committee on Appropriations
House of Representatives

The Honorable Solomon O. Ortiz
Chairman
Subcommittee on Readiness
Committee on Armed Services
House of Representatives

The Honorable Walter B. Jones
The Honorable Mike Rogers
House of Representatives

Scope and Methodology

To identify the efforts to determine which supply, storage, and distribution (SS&D) functions will transfer to the Defense Logistics Agency (DLA), we analyzed pertinent documents and reports and interviewed officials from the Office of the Secretary of Defense (OSD), DLA, and the military services. We also discussed the efforts to delineate SS&D functions to be transferred to DLA with service officials at affected industrial depots, which are listed below. In addition, we obtained and reviewed documentation from OSD's Base Realignment and Closure (BRAC) Office and the Army Materiel Command concerning the disagreement between DLA and the Army on the definition of SS&D and the number of Army positions to be transferred to DLA. We also obtained the results of the Air Force's, Army's, and Marine Corps' position-by-position analyses of their SS&D functions that were considered for transfer to DLA. In particular, we analyzed and reviewed the efforts on the part of DLA and Warner Robins Air Logistics Center to finalize the number of full-time equivalent positions to be transferred to DLA. Furthermore, we reviewed OSD documentation concerning the agreements reached between DLA and the Air Force, Navy, and Marine Corps regarding the number of positions to be transferred.

To determine the military services' key concerns in implementing the transfer of functions, we reviewed pertinent documents and reports and interviewed officials from OSD, DLA, and the military services. Additionally, we discussed challenges with service officials and union representatives and observed the supply and support operations at some of the affected industrial depots listed below. In determining the military services' key concerns, there are two specific limitations regarding our work. First, no actual "implementation"—that is, personnel moves, military construction, or infrastructure reduction—has occurred on the BRAC SS&D recommendation. Actual implementation is scheduled to be carried out in a time-phased manner beginning with Warner Robins Air Logistics Center in October 2007. Second, the extent to which any of the concerns expressed by the military services may actually materialize is unknown, as implementation has not yet begun.

To determine the extent to which DLA's plans establish a transfer process that minimizes disruptions in depot maintenance, we analyzed pertinent documents and interviewed officials from OSD, DLA, and the military services. Further, we discussed with these officials actions ongoing or planned to mitigate the risks associated with the transfer of SS&D functions to DLA. There are a number of limitations in determining the extent to which DLA's plans establish a transfer process that minimizes disruptions in depot maintenance. First, there have been numerous draft versions of the business plan on SS&D management reconfiguration, with the most recent dated September 21, 2007. DLA submitted the SS&D business plan to OSD for approval on September 18, 2007. Because most of the SS&D functions are supposed to transfer from fiscal year 2008 to fiscal year 2011, we reviewed DLA's planning actions regarding the transfer of SS&D functions virtually as they were occurring. Second, as of August 2007, only the Air Force and Navy had begun detailed implementation planning with DLA at the depot level. DLA and the Air Force plan to transfer SS&D functions at Warner Robins Air Logistics Center in October 2007. The

Enclosure I

Navy was in the initial stages of similar planning for the transfer of its functions. However, the Marine Corps and Army had not begun conducting any implementation planning at the depot level. Third, the implementation planning process is referred to by DLA as a living process, in which strategies, approaches, milestones, and management controls are constantly in flux. Thus, the process is fluid and not yet complete. Fourth, due to the incomplete nature of the implementation process, we relied heavily on testimonial evidence as to actions that are planned to occur in the future because little other evidence existed at the time of our review. Specifically, because the implementation planning process is not yet complete and no SS&D functions are expected to transfer until October 2007, little documentary evidence was available to assess DLA and the services' planning and implementation efforts. Fifth, sound implementation planning on the part of DLA and the services cannot guarantee a transfer process that minimizes disruptions in depot maintenance. Only after the BRAC SS&D recommendation is fully implemented can the precise effects on depot maintenance of the transfer of SS&D functions to DLA be determined.

To determine the estimated costs and savings associated with implementing this transfer of functions, we compared the estimates in DLA's draft business plan of September 21, 2007, to the estimates approved by the BRAC Commission. Because the BRAC Commission uses fiscal year 2005 constant dollars and the business plan contains then-year dollars,³² we converted the BRAC Commission's fiscal year 2005 constant dollars to then-year dollars to facilitate the comparison between the two sets of numbers. We compared these estimates by reviewing and analyzing source data and methodology used to generate the estimates and calculated projected changes in costs and savings. We discussed the reasons for the variances with DLA, service, and contractor officials. To assess the reliability of the data and the validity of underlying assumptions used to generate estimates of costs and savings, we reviewed pertinent Under Secretary of Defense for Acquisition, Technology, and Logistics; Supply and Storage Joint Cross-Service Group; and DLA regulations and instructions for reporting data and interviewed officials at these locations as well as representatives from each of the military services knowledgeable about the data and the assumptions underlying estimated costs and savings. Based on this, we believe that the data used were sufficiently reliable for the purposes of this report. It should be noted that the business plans are considered "living" documents and the data presented therein represent a point in time as plans are subject to change as implementation proceeds. Moreover, since this report contains figures from the draft business plan for the SS&D recommendation, the data used in this report could change if the business plan numbers change when it is approved. According to OSD policy, until the SS&D business plan is approved, no funds may be obligated for implementation of this recommendation.

Since this review only focused on the facilities included in the BRAC recommendation, we did not include in our review nine other service SS&D facilities that were not included in the BRAC recommendation but that were required by OSD to transfer their supply and storage functions and associated personnel to DLA. The

³²Then-year dollars, sometimes called current dollars, reflect the level of prices or expected prices at the time of measurement. Constant dollars reflect the purchasing power of dollars in a given base year.

Enclosure I

transfer of functions at these nine facilities was directed by a June 22, 2005, Under Secretary of Defense for Acquisition, Technology, and Logistics administrative decision in order to establish a more effective and efficient supply chain. During the course of our review, we contacted the following offices with responsibility for oversight, management, and implementation of the SS&D recommendation, and industrial depots specifically affected by the transfers:

Department of Defense

- Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, Arlington, Virginia
- Office of the Secretary of Defense Base Realignment and Closure Office, Arlington, Virginia
- Defense Logistics Agency headquarters, Fort Belvoir, Virginia

Army

- Office of Deputy Chief of Staff—Army Logistics, Arlington, Virginia
- United States Army Materiel Command, Fort Belvoir, Virginia
- Anniston Army Depot, Anniston, Alabama
- Corpus Christi Army Depot, Corpus Christi, Texas
- Tobyhanna Army Depot, Tobyhanna, Pennsylvania

Navy

- Office of Chief of Naval Operations, Arlington, Virginia
- Naval Sea Systems Command, Washington Naval Yard, Washington, D.C.
- Naval Supply Systems Command, Mechanicsburg, Pennsylvania
- Fleet and Industrial Supply Center, Norfolk Naval Base, Norfolk, Virginia
- Fleet Readiness Center-East, Naval Aviation Depot, Cherry Point, North Carolina
- Fleet and Industrial Supply Center, Naval Aviation Depot, Cherry Point, North Carolina
- Norfolk Naval Shipyard, Portsmouth, Virginia

Air Force

- Air Force Materiel Command, Wright-Patterson Air Force Base, Ohio
- Warner Robins Air Logistics Center, Warner Robins, Georgia

Marine Corps

- Marine Corps Logistics Command, Albany, Georgia
- Marine Corps Maintenance Center Albany, Albany, Georgia

We conducted our work from June 2007 through September 2007 in accordance with generally accepted government auditing standards.

Enclosure II

Text of the BRAC Commission's Approved Supply, Storage, and Distribution Management Reconfiguration Recommendation Supply, Storage, and Distribution Management Reconfiguration (BRAC 2005 Round Recommendation)

Realign Defense Supply Center Columbus, OH, by disestablishing the Defense Distribution Depot Columbus, OH. Relocate the storage and distribution functions and associated inventories to the Defense Distribution Depot Susquehanna, PA, hereby designated the Susquehanna Strategic Distribution Platform.

Realign Tobyhanna Army Depot, PA, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot Tobyhanna, PA, with all other supply, storage, and distribution functions and inventories that exist at Tobyhanna Army Depot to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Tobyhanna Army Depot, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Susquehanna Strategic Distribution Platform.

Realign Naval Station Norfolk, VA, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot Norfolk, VA, with all other supply, storage, and distribution functions and inventories that exist at Norfolk Naval Base and at Norfolk Naval Shipyard to support shipyard operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Norfolk Naval Shipyard operations, maintenance and production, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Susquehanna Strategic Distribution Platform.

Realign Defense Supply Center Richmond, VA, by relocating the storage and distribution functions and associated inventories of the Defense Distribution Depot Richmond, VA, to the Susquehanna Strategic Distribution Platform. Retain the minimum necessary storage and distribution functions and associated inventories at Defense Distribution Depot Richmond, VA, to serve as a wholesale Forward Distribution Point.

Realign Marine Corps Air Station, Cherry Point, NC, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot, Cherry Point, NC, with all other supply, storage, and distribution functions and inventories that exist at Naval Aviation Depot Cherry Point, NC, to

Enclosure II

support depot operations, maintenance and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Naval Air Depot Cherry Point, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Defense Distribution Depot Warner Robins, GA, hereby designated the Warner Robins Strategic Distribution Platform.

Realign Robins Air Force Base, GA, by consolidating the supply, storage, and distribution functions and associated inventories supporting depot operations, maintenance, and production at the Warner Robins Air Logistics Center with the supply, storage, and distribution functions at the Warner Robins Strategic Distribution Platform.

Realign Marine Corps Logistics Base, Albany, GA, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot Albany, GA, with all other supply, storage, and distribution functions and inventories that exist at the Maintenance Center Albany, GA, to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support the Maintenance Center Albany, GA, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Warner Robins Strategic Distribution Platform.

Realign Naval Air Station Jacksonville, FL, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot, Jacksonville, FL, with all other supply, storage, and distribution functions and inventories that exist at the Naval Aviation Depot, Jacksonville, FL, to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support the Naval Aviation Depot, Jacksonville, FL, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Warner Robins Strategic Distribution Platform.

Realign Anniston Army Depot, AL, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot Anniston, AL, with all other supply, storage, and distribution functions and inventories that exist at the Anniston Army Depot, AL, to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Anniston Army Depot, AL, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Warner Robins Strategic Distribution Platform.

Enclosure II

Realign Corpus Christi Army Depot, TX, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot, Corpus Christi, TX, with all other supply, storage, and distribution functions and inventories that exist at Corpus Christi Army Depot, TX, to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Corpus Christi Army Depot, TX, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Defense Distribution Depot Oklahoma City, hereby designated the Oklahoma City Strategic Distribution Platform.

Realign Tinker AFB, OK, by consolidating the supply, storage, and distribution functions and associated inventories supporting depot operations, maintenance, and production at the Air Logistics Center, Oklahoma City, OK, with the supply, storage, and distribution functions and inventories at the Oklahoma City Strategic Distribution Platform.

Realign Hill AFB, UT, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot, Hill, UT, with all other supply, storage, and distribution functions and inventories that exist at the Ogden Air Logistics Center, UT, to support depot operations, maintenance, and production. Retain the necessary supply, storage, and distribution functions and inventories required to support the Ogden Air Logistics Center, UT, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the Defense Distribution Depot, San Joaquin, CA, hereby designated the San Joaquin Strategic Distribution Platform.

Realign Naval Station Bremerton, WA, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot, Puget Sound, WA, with all other supply, storage and distribution functions and inventories that exist at Puget Sound Naval Shipyard, WA, to support shipyard operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Puget Sound Naval Shipyard, WA, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the San Joaquin Strategic Distribution Platform.

Realign Naval Station, San Diego, CA, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot, San Diego, CA, with all other supply, storage, and distribution functions and inventories that exist at Naval Aviation Depot, North Island, CA, to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories required to support Naval Aviation

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Depot, North Island, CA, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the San Joaquin Strategic Distribution Platform.

Realign Marine Corps Logistics Base, Barstow, CA, by consolidating the supply, storage, and distribution functions and associated inventories of the Defense Distribution Depot Barstow, CA, with all other supply, storage, and distribution functions and inventories that exist at the Maintenance Center Barstow, CA, to support depot operations, maintenance, and production. Retain the minimum necessary supply, storage, and distribution functions and inventories at Defense Distribution Depot Barstow, CA, that are required to support the Maintenance Center Barstow, CA, and to serve as a wholesale Forward Distribution Point. Relocate all other wholesale storage and distribution functions and associated inventories to the San Joaquin Strategic Distribution Platform.

Source: Extract from the 2005 *Defense Base Closure and Realignment Commission Report to the President*, Volume 2 Appendix Q (Commission's Final Recommendations).

Enclosure III

Changes in Costs and Savings Estimates at Each Collocated Maintenance Depot

Our analysis of the original BRAC Commission estimates and other documents shows that transferring the SS&D functions and associated inventories from the military services' industrial depots to DLA has resulted in an increase in estimated costs and a significant decrease in estimated savings. We noted changes in three areas: information technology costs, civilian personnel savings, and inventory savings.³³ Specifically, the estimated information technology costs for connecting each of the four services' current inventory management software systems with DLA have increased to almost \$79 million, an increase of more than 130 percent. A breakdown of the information technology cost increases by each depot is shown in table 2.

Table 2: Changes in Information Technology Cost Estimates for Fiscal Years 2006 through 2011 (as of September 2007)

Dollars in thousands			
Location	BRAC Commission cost estimate ^a	Revised cost estimate ^a	Difference ^a
Tobyhanna Army Depot (AD)	\$1,646	\$9,413	\$7,767
Corpus Christi AD	4,740	12,506	\$7,766
Anniston AD	5,660	13,427	\$7,767
Tinker Air Force Base (AFB) ^b	5,549	8,049	\$2,500
Robins AFB ^b	3,787	6,287	\$2,500
Hill AFB ^b	1,820	4,320	\$2,500
Marine Corps Logistics Base (MCLB) Albany	1,062	3,662	\$2,600
MCLB Barstow	1,703	4,303	\$2,600
Naval Station (NAVSTA) Bremerton	1,041	5,541	\$4,500
NAVSTA Norfolk	1,851	1,851	0
NAVSTA San Diego	1,372	5,872	\$4,500
Naval Air Station (NAS) Jacksonville	1,861	1,861	0
Marine Corps Air Station (MCAS) Cherry Point	1,646	1,646	0
Total	\$33,738	\$78,738	\$45,000

Source: GAO analysis of data provided by DLA.

^aFigures are presented in then-year dollars for comparative purposes. Commission estimates were originally presented in constant dollars, but we converted them to then-year dollars to facilitate equitable comparisons.

^bWe divided the total increase of \$7.5 million evenly among Tinker, Robins, and Hill Air Force Bases, because the Air Force had not identified amounts by depot location.

In addition, our analysis shows that the estimated savings for transferring SS&D functions and associated inventories from the services' depots to DLA are expected to be about \$13 million less than the original 2005 BRAC Commission estimate due to

³³The business plan also indicated that some costs associated with disposing of and rewarehousing inventory increased by \$115 million. However, data were not available to determine how much, if any, of this estimated cost increase should be attributed to the transfer of SS&D functions, and how much should be attributed to other changes associated with reconfiguring the depot system.

Enclosure III

a decrease in estimated civilian salary savings. A breakdown of the changes in planned eliminations of civilian positions at each of the services' industrial depots appears in table 3.

Table 3: Planned Civilian Position Eliminations and Recurring Savings for the Transfer of SS&D Functions from the Services' Industrial Depots to DLA (as of September 2007)

Dollars in thousands						
Location	BRAC Commission eliminations	Revised eliminations	Difference	BRAC Commission estimated savings ^a	Revised estimated savings ^a	Difference ^a
Tobyhanna AD	6	3	-3	\$1,130	\$516	-\$614
Corpus Christi AD	17	1	-16	3,202	421	-\$2,781
Anniston AD	22	4	-18	4,143	718	-\$3,425
Tinker AFB	26	24	-2	4,897	1,734	-\$3,163
Robins AFB	9	17	8	1,693	2,278	\$585
Hill AFB	7	15	8	2,318	1,088	-\$1,230
MCLB Albany	3	2	-1	565	355	-\$210
MCLB Barstow	4	1	-3	1,434	34	-\$1,400
NAVSTA Bremerton	4	6	2	1,375	947	-\$428
NAVSTA Norfolk	5	8	3	942	2113	\$1,171
NAVSTA San Diego	2	3	1	692	170	-\$522
NAS Jacksonville	2	2	0	332	136	-\$196
MCAS Cherry Point	7	6	-1	1,319	408	-\$911
Total	114	92	-22	\$24,042	\$10,918	-\$13,124

Source: GAO analysis of data provided by DLA.

^aFigures are presented in then-year dollars for comparative purposes. Commission estimates were originally presented in constant dollars, but we converted them to then-year dollars to facilitate equitable comparisons.

Comments from the Department of Defense



DEPUTY UNDER SECRETARY OF DEFENSE FOR
LOGISTICS AND MATERIEL READINESS
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

October 18, 2007

Mr. Brian Lepore
Director, Defense Capabilities and Management
U. S. Government Accountability Office
441 G Street, N. W.
Washington, DC 20548

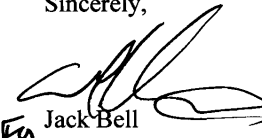
Dear Mr. Lepore:

This is the Department of Defense (DOD) response to the GAO draft report, GAO-08-121R, "MILITARY BASE REALIGNMENTS AND CLOSURES: Transfer of Supply, Storage, and Distribution Functions from Military Services to Defense Logistics Agency," dated September 27, 2007 (GAO Code 351056).

The Department concurs in principle with the draft report's findings and conclusions. We have attached two comments that add clarity in regards to the projected savings that are attributable to the BRAC recommendations.

The Department appreciates the opportunity to comment on the draft report. For further questions concerning this report, please contact Colonel Dennis Crimiel, 703-695-6188.

Sincerely,


Fu Jack Bell

Enclosure:
As stated



**GAO DRAFT REPORT - DATED SEPTEMBER 27, 2007
GAO CODE 351056/GAO-08-121R**

**"MILITARY BASE REALIGNMENTS AND CLOSURES:
Transfer of Supply, Storage, and Distribution Functions from Military Services to
Defense Logistics Agency"**

**DEPARTMENT OF DEFENSE COMMENTS
ON THE DRAFT REPORT**

Issue 1: Page 7 of the report states "Once DLA realized this, it replaced the initial estimated savings with about \$203 million in projected savings of which almost \$172 million were derived from inventory reduction initiatives that are not directly a result of BRAC actions."

Issue 2: Page 28 of the report states "Once DLA realized that the estimated savings, which were based on flawed data generated during the BRAC decision making process, would not occur, it replaced the initial savings estimate with about \$203 million in estimated savings. However, about \$172 million of that revised estimate was derived from initiatives that are not directly a result of BRAC actions and is therefore not savings that are attributable to BRAC."

Response to Issues 1 & 2: The Department considers the savings reflected by DLA as a savings enabled by the BRAC recommendation and therefore should be attributable to the recommendation. Only those savings that occur during the implementation period (2006-2011) are included in the financial displays of the business plan.

Overall comment on inventory savings:

Regarding inventory savings, the AF is further along in projecting inventory savings as they have been using an inventory optimization tool (COLT) for a number of years.

Enclosure V

GAO Contact and Staff Acknowledgments

GAO Contact

Brian J. Lepore, (202) 512-4523 or leporeb@gao.gov

Acknowledgments

In addition to the individual named above, James R. Reifsnyder, Assistant Director; John R. Beauchamp; Renee S. Brown; John C. Bumgarner; Larry J. Junek; Julia Matta; Charles W. Perdue; Dudley C. Roache, Jr.; and Virginia M. Saavedra also made significant contributions to this report.

Related GAO Products

Defense Infrastructure: Challenges Increase Risks for Providing Timely Infrastructure Support for Army Installations Expecting Substantial Personnel Growth. GAO-07-1007. Washington, D.C.: September 13, 2007.

Military Base Realignment and Closures: Plan Needed to Monitor Challenges for Completing More Than 100 Armed Forces Reserve Centers. GAO-07-1040. Washington, D.C.: September 13, 2007.

Military Base Realignment and Closures: Observations Related to the 2005 Round. GAO-07-1203R. Washington D.C.: September 6, 2007.

Military Base Closures: Projected Savings from Fleet Readiness Centers Likely Overstated and Actions Needed to Track Actual Savings and Overcome Certain Challenges. GAO-07-304. Washington, D.C.: June 29, 2007.

Military Base Closures: Management Strategy Needed to Mitigate Challenges and Improve Communication to Help Ensure Timely Implementation of Air National Guard Recommendations. GAO-07-641. Washington, D.C.: May 16, 2007.

Military Base Closures: Opportunities Exist to Improve Environmental Cleanup Cost Reporting and to Expedite Transfer of Unneeded Property. GAO-07-166. Washington, D.C.: January 30, 2007.

Military Bases: Observations on DOD's 2005 Base Realignment and Closure Selection Process and Recommendations. GAO-05-905. Washington, D.C.: July 18, 2005.

Military Bases: Analysis of DOD's 2005 Selection Process and Recommendations for Base Closures and Realignments. GAO-05-785. Washington, D.C.: July 1, 2005.

Military Base Closures: Updated Status of Prior Base Realignments and Closures. GAO-05-138. Washington, D.C.: January 13, 2005.

Military Base Closures: Assessment of DOD's 2004 Report on the Need for a Base Realignment and Closure Round. GAO-04-760. Washington, D.C.: May 17, 2004.

Military Base Closures: Observations on Preparations for the Upcoming Base Realignment and Closure Round. GAO-04-558T. Washington, D.C.: March 25, 2004.

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